A RISK TOLERANCE APPROACH

CONSIDER A CLIENT’S RISK TOLERANCE: CONSERVATIVE, GROWTH, MODERATE

Knowing a client’s approach to market gains and losses can help narrow down which life insurance products might be most appropriate for them. Explore types of policies from a risk tolerance perspective. See how a client might have benefited or sacrificed growth potential, based on a particular type of policy during these years.

THE BENEFIT - EXPLORE THESE THREE CATEGORIES OF LIFE INSURANCE

CONSERVATIVE: **INDEXED UNIVERSAL LIFE**

- Let’s assume a 0% floor and a 12% cap. Cap ranges vary on IUL products. The industry cap rate average over the last 5 years has been 9%-10%.
- Clients would have been protected from any amount of market loss because of a 0% floor. And, they would have fully participated in gains up to the cap; 12% in this example.

GROWTH: **VARIABLE UNIVERSAL LIFE**

- 10.7% average annual return for the S&P 500 1937-2021
- Clients would have unlimited upside exposure to equities

MODERATE: **INDEXED VARIABLE UNIVERSAL LIFE**

- Let’s assume a 10% buffer – Can be an extremely attractive value proposition that wasn’t readily available to the life insurance space until recently. Clients would have unlocked more years of full participation than the conservative client in the IUL example. These clients would have had an opportunity to capture a greater amount of market returns.

CONSERVATIVE

10 years ↑0% - 6%	
2015	+1.4%
2011	+2.1%
2007	+5.5%
2005	+4.9%
1994	+1.3%
1987	+5.25
1970	+3.9%
1960	+0.5%
1948	+5.4%
1947	+5.6%

9 years ↑6% - 12%	
2016	+12.0%
2004	+10.9%
1993	+10.1%
1992	+7.6%
1984	+6.2%
1978	+6.5%
1968	+11.0%
1959	+12.0%
1956	+6.5%

GROWTH & MODERATE

8 years ↑12% - 18%	
2014	+13.7%
2012	+16.0%
2010	+15.1%
2006	+15.8%
1988	+16.6%
1971	+14.2%
1965	+12.5%
1964	+16.4%

17 years ↑18% - 24%	
2020	+18.4%
2017	+21.8%
1999	+21.0%
1996	+23.0%
1986	+18.6%
1983	+22.5%
1982	+21.5%
1979	+18.4%
1976	+23.8%
1972	+19.0%
1967	+23.9%
1963	+22.8%
1952	+18.2%
1951	+24.0%
1949	+18.6%
1944	+19.5%
1942	+20.1%

21 years ↑24%+	
2021	+28.7%
2019	+31.5%
2013	+32.4%
2009	+26.5%
2003	+28.7%
1998	+28.6%
1997	+33.4%
1995	+37.6%
1991	+30.5%
1989	+31.7%
1985	+31.6%
1980	+32.4%
1975	+37.1%
1961	+26.9%
1958	+43.1%
1955	+31.4%
1954	+52.3%
1950	+31.5%
1945	+36.3%
1943	+25.6%
1938	+30.8%

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THE TRADEOFF - EXPLORE THESE THREE CATEGORIES OF LIFE INSURANCE

CONSERVATIVE: INDEXED UNIVERSAL LIFE

The tradeoff: indirect limited upside exposure. The cap limit requires a client to forego the percentage of growth between the cap and the actual market results in years where growth exceeds the cap rate.

GROWTH: VARIABLE UNIVERSAL LIFE

The tradeoff: recognition of losses incurred in years of a down market. Variable universal life allows a client recognize the full benefit of growth years in the market while at the same time realizing a loss when the market has a down year.

MODERATE: INDEXED VARIABLE UNIVERSAL LIFE

Using the 10% buffer to remain consistent with page 1, **the tradeoff** here is that the client still runs the risk of realizing a loss from a down market that exceeds the 10% buffer (if elected). Note: While the buffer offers an ability to reduce a client's loss exposure in down markets it's important that the client also understand the lower upside potential that they incur by adding the buffer to limit their potential loss exposure.

GROWTH | 20 NEGATIVE YEARS = -12.2% AVG NEGATIVE RETURN

3 years down 0% - 6%	1 year down 0% - 6%	1 year down 0% - 6%	10 years down 0% - 6%	5 years down 0% - 6%
2008 -37.0%	2002 -22.1%	1973 -14.7%	2001 -11.9%	2018 -4.4%
1974 -26.3%			2000 -9.1%	1990 -3.1%
1937 -34.7%			1977 -7.2%	1981 -4.9%
			1969 -8.4%	1953 -0.9%
			1966 -10.0%	1939 -0.4%
			1962 -8.7%	
			1957 -10.7%	
			1946 -8.0%	
			1941 -11.6%	
			1940 -9.8%	

VUL policies give potential for a client with the risk tolerance and behavior type to ride out the down years to participate in the up years.

The S&P 500 has historically been positive roughly 75% of the time. This is one reason why some financial professionals and clients are interested in solutions like VUL that can provide full upside participation.